



Auditing to build public confidence

**AUDITOR-GENERAL
SOUTH AFRICA**



INXUBA YETHEMBA LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2019



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to the Eastern Cape Provincial Legislature and the Council on Inxuba Yethemba Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Inxuba Yethemba Local Municipality set out on pages ... to ..., which comprise the the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Inxuba Yethemba Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standard of Generally Recognised Accounting Practise (SA standard of GRAP) and the requirements of the Municipal Management Act of South Africa, 2003 (Act No.56 of 2003)(MFMA) and the Division of Revenue Act of Sout Africa, 2018 (Act No.1 of 2018)(DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. As disclosed in note 47 to the financial statements which indicates that the municipality is experiencing financial difficulties in that its current liabilities exceed its current assets. The events or conditions disclosed in note 47, together with other matters set forth in the same note, indicate that material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 55 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material impairments – Receivables from exchange transactions

10. As disclosed in note 4 to the financial statements, material impairments to the amount of R4,7 million (2018: R4,3 million) was incurred as a result of a non-payment of trade debtors.

Material impairments – Receivables from non-exchange transactions

11. As disclosed in note 5 to the financial statements, material impairments to the amount of R68,8 million (2018: R59,7 million) was incurred as a result of a non-payment from trade debtors.

Material impairments – Consumer debtors from exchange transactions

12. As disclosed in note 7 to the financial statements, material impairments to the amount of R93,2 million (2018: R77,0 million) was incurred as a result of a non-payment from trade debtors.

Material losses

13. As disclosed in note 54 to the financial statements, material electricity losses of R11,8 million (2018: R7,9 million) was incurred, which represents 16.85% (2018: 11,90%) of total electricity consumed.

Unauthorised expenditure

14. As disclosed in note 48 to the financial statements, the municipality incurred unauthorised expenditure to the amount of R76,8 million (2018: R45,6 million).

Irregular expenditure

15. As disclosed in note 50 to the financial statements, the municipality incurred irregular expenditure of R70,1 million (2018: R66,6 million).

Fruitless and wasteful expenditure

16. As disclosed in note 49 to the financial statements, the municipality incurred fruitless and wasteful expenditure to the amount of R13,6 million (2018: R7,8 million).

Other matter

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

18. In terms of section 125(s2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

23. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
24. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

| Development priorities | Pages in the annual performance report |
|--------------------------------------|---|
| KPI Performance – Technical Services | x – x |
| KPI Performance – Community Services | x – x |

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Technical Services

Objective - Environmental management: promote a clean environment

28. The strategic objective was included in the annual performance report. However, the strategic objective was omitted on the approved service delivery and budget implementation plan (SDBIP).

Number of landfill sites developed and maintained in IYM

29. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to a lack of technical indicator descriptions and formal standard operating procedures or documented system descriptions. I was unable to validate the existence of systems and processes by alternative means.

Number of infrastructure maintenance plans updated

30. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and evidence to be used when measuring the actual achievement for the indicator. This was due to a lack of technical indicator descriptions. I was unable to test whether the indicator was well-defined by alternative means.
31. The achievement for target 1 reported in the annual performance report was 1. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 0.

Number of meters of streets paved in 2018

32. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target of 2900 as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported

measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

33. I was unable to obtain sufficient appropriate audit evidence for the reported target of 1640. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 1640 as reported in the annual performance report.

Various indicators

34. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target for the indicators below as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

- Number of gutters and stormwater drains unblocked
- Number of hawker stalls to be connected to electricity

35. The reported measures taken to improve performance against the planned target, did not agree to the supporting evidence provided. Based on the supporting evidence provided, the measures taken to improve performance were supported by the training register which took place in January 2019 and not after the financial year end when the municipality had assessed the achievement of the targets as reported in the annual performance report. The achievement for targets reported in the annual performance report was as per table below. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of audited value for each indicator as per the table below.

| Indicator Description | Reported Achievement | Audited Value |
|---|----------------------|---------------|
| Number of streetlights repaired | 174 | 77 |
| Number of faulty electrical meters repaired | 361 | 0 |

Community Services

Number of reading programmes implemented in libraries

36. The source information and evidence for achieving the planned indicator was not clearly defined.
37. The measures taken to improve performance against target 312 were not included in the annual performance report.

38. The achievement for target 312 reported in the annual performance report was 301. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 11.

Number of emergency centre for fire services and disaster management established

39. The source information and evidence for achieving the planned indicator was not clearly defined.
40. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target 1 as reported in the annual performance report. This was due to limitations placed on the scope of my work and due to the fact that there was no supporting information in order to corroborate the remedial actions. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Number of speed humps constructed

41. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to the inadequacy of evidence provided to corroborate the achievement, which is made up of pictures that are insufficient to prove validity. I was unable to validate the existence of systems and processes by alternative means.
42. The measures taken to improve performance against target 3 were not included in the annual performance report.
43. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 2 speed humps constructed. This was due to type of supporting documents which consisted of photos however, there was no indication on the picture that the speed humps were constructed adequately. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 2 as reported in the annual performance report.

Number of road traffic signs installed

44. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to the inadequacy of evidence provided to corroborate the achievement, which is made up of pictures that are insufficient to prove validity. I was unable to validate the existence of systems and processes by alternative means.
45. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 40 road traffic signs installed. This was due to the type of supporting documents which was either approved or not approved installation register or photos taken which was not sufficient to prove the installation of road signs. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 40 as reported in the annual performance report.

Various Indicators

46. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 3 indicators of the 30 indicators of the development priority. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustment were required to the reported achievements in the annual performance report of the indicators listed below:

| Indicator Description | Reported Achievement | Audited Value |
|---|----------------------|---------------|
| Number of maintenance visits to cemeteries in terms of the maintenance plan | 841 | 0 |
| Number of maintenance visits to Sports Field in terms of the maintenance plan | 1307 | 0 |
| Number of maintenance visits to Parks in terms of the maintenance plan | 1169 | 0 |

47. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

| Indicator Description | Reported Achievement | Audited Value |
|--|----------------------|---------------|
| Number of book clubs established in libraries | 10 | 1 |
| Number of library members recruited | 419 | 276 |
| Number of household with access to refuse removal | 200 495 | 118 812 |
| Number of quarterly reports on reduction of irregular and fruitless and wasteful expenditure | 2 | 0 |
| Number of disaster management plans | 1 | 0 |

48. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets as reported in the annual performance report for the indicators listed below. This was due to limitations placed on the scope of my work. I was

unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

- Number of law enforcement summons issued
- Number of parking bylaws submitted for promulgation
- Number of LAC programmes implemented
- Number of educational programmes conducted in partnership with relevant sector departments
- Number of HIV/Aids seminars held
- Number of HIV/Aids prevention campaigns held
- Number of fire response frameworks developed with the council approval

Other matters

49. I draw attention to the matters below.

Achievement of planned targets

50. Refer to the annual performance report on pages 53 to 154 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 28 to 48 of this report.

Adjustment of material misstatements

51. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of technical and community service. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

52. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

53. The material findings on compliance with specific matters in key legislations are as follows:

Financial Statements and Annual Report

54. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

55. Material misstatements of current assets, non-current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
56. The 2017/18 annual report was not made public after being tabled in council, as required by section 127(5)(a) of the MFMA.
57. The local community was not invited to submit representations in connection with the 2017/18 annual report, as required by section 127(5) (a) of the MFMA.
58. The oversight report adopted by the council on the 2017/18 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure Management

59. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
60. Payments were made from the municipality's bank account without the approval of a properly authorised official, as required by section 11(1) of the MFMA.
61. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the authorisation of funds, as required by section 65(2)(a) of the MFMA.
62. Reasonable steps were not taken to prevent irregular expenditure amounting to R70.1 million as disclosed in note 50 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with SCM regulations.
63. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R76,8 million, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was due to overspending of the operational budget.
64. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R13,6 million, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by finance costs.

Consequence Management

65. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
66. Irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Strategic Planning and Performance

67. The SDBIP was revised during the year without approval of the council following approval of an adjustments budget, as required by section 54(1)(c) of the MFMA.
68. The SDBIP for the year under review did not include monthly revenue projections by source of collection and/or the monthly operational and capital expenditure by vote, and/or the service delivery targets and performance indicators for each quarter, as required by section 1 of the MFMA.
69. The review of the IDP was not done in accordance with the results of the performance evaluation and/or to the extent that changing circumstances demanded, as required by section 34(a) and 41(1)(c)(ii) of the MSA.
70. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the MSA and municipal planning and performance management regulation 3(4)(b) and 15(1)(a)(ii).
71. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).
72. A performance management system was not established, as required by section 38(a) of the MSA.
73. A performance management system was not adopted, as required by municipal planning and performance management reg 8.
74. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management reg 7(1).
 - The municipality does not have a person(s) ultimately responsible for the co-ordination and managing of reporting on performance at an outcome/development priority level.
 - The roles and responsibilities for collecting, coordinating and compiling performance information were clearly not documented and communicated to all relevant staff.
 - The roles and responsibilities for ensuring data integrity and quality assurance were clearly not documented and communicated to all relevant staff.
 - The risk management process does not include risk identification, risk analysis and management of risk to ensure that performance is measured and achieved.
 - The risk management procedures do not identify risks regarding performance information reporting including data quality risks.
 - There is no specific and appropriate information systems (manual or automated) that enables the municipality to monitor the progress made towards achieving the goals, targets and core objectives as indicated in the strategic and annual plan exist.
 - Management did not have and or monitor the data assurance procedures in place such as data collection, processing and monitoring procedures.

Human resource management

- 75. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.
- 76. Appointments were made in posts which were not provided for in the approved staff establishment, as required by section 66(3) of the MSA.

Procurement and contract management

- 77. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
- 78. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
- 79. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. This non-compliance was identified in the procurement processes for the Paving of Mobo, Paving of Gemsbok and Paving of Tulbagh Street.

Other information

- 80. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
- 81. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
- 82. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 83. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

- 84. I considered internal control relevant to my audit of reported performance information and compliance with applicable legislation; however, my objective was not to express any form of

assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the Annual Performance Report of Inxuba Yethemba Local Municipality and the findings on compliance with legislation included in this report.

85. Leadership did not adequately oversee and monitor compliance with legislation which has resulted in repeat findings for the current year. This did not set the correct tone for building a high-performance environment that promotes accountability. As a result, consequence management was also not implemented. Furthermore, the plan to address internal and external findings was not effectively monitored to ensure adherence in a timely manner.
86. Management did not implement daily and monthly controls. In addition, the municipality's staff members do not understand the applicable financial reporting framework and performance information reporting requirements. This has further contributed towards the numerous non-compliance findings reported above.
87. The accounting officer did not ensure that an adequately resourced and functioning internal audit unit for the entire year under review was established. The internal controls were, in addition to the above, not designed, implemented and evaluated for effectiveness and efficiencies by internal audit for the entire year under review. The audit committee did not perform their oversight function on the effectiveness of the internal control environment and compliance with laws and regulations.

Other reports

88. I draw attention to the following engagements conducted by an external party that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
89. The Public Protector issued a report on the 09 September 2019 based on a complaint that was lodged by a Democratic Alliance Councillor of the Inxuba Yethemba Council regarding an investigation of improper conduct and maladministration by the Inxuba Yethemba Local Municipality in the Eastern Cape relating to the misappropriation of public funds during the year of 2017. The Speaker of the Inxuba Yethemba Council was instructed to implement remedial action and her report is now ready to be tabled in Council.

AUDITOR GENERAL

East London

19 December 2019



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Inxuba Yethemba Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

